

PONZI SCHEMES

Securities fraud costs Americans an estimated billions of dollars each year. Volatile stock markets and low returns on traditional investment vehicles have investors looking for alternatives to bolster their lagging portfolios. This is the perfect environment for scammers to pitch investments promising high returns with low risk. In reality, such a combination is rare.

The Ponzi scheme remains one of the most common types of investment fraud. Its popularity can be attributed to its simplicity—it can take any shape and be conducted by anyone. Its hallmark is the promise of high returns to investors in record time. The scheme essentially works by “robbing Peter to pay Paul.”

Ponzi schemes are the legacy of Italian immigrant Charles Ponzi. In the early 1920s, he promised investors 40 percent returns in 90 days through a postal speculation scheme. He paid early investors the promised 40 percent return using investment monies from new investors. By the time the scheme collapsed, he had taken investors for \$10 million.

The only people who make money in a Ponzi scheme are the promoters who set them in motion—and possibly some initial investors, in order to lend a legitimate air to the scheme. The money does not come from a return on invested monies, but from new investors. The schemes always collapse, resulting in considerable losses to most investors.

Even today, the Ponzi scheme continues to flourish. According to the North American Securities Administrators Association, Ponzi schemes, along with pyramid schemes, top the list this year for the most frequently used type of fraudulent scheme. Investors continue to be attracted to a Ponzi scheme because everyone wants to make money as quickly as possible. People want to believe the promise of a high rate of return is true. The truth is that if it sounds too good to be true, it usually is. [<continued>](#)